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NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED – Quarterly Financial Report for the quarter ended September 30, 2014 (unaudited)

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National Research Council Canada

Statement outlining results, risks and significant changes in operations, personnel and programs

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1. Introduction

The Government of Canada uses financial information to support decision making, for policy development, for service delivery and for historical reference. These financial statements have been prepared to respond to these requirements. This Departmental Quarterly Financial Report (QFR) reflects the results of the current fiscal period in relation to the Main Estimates and Supplementary Estimates (A). The QFR should be read in conjunction with the Main Estimates and Supplementary Estimates (A) as well as Budget 2012, Budget 2013 and Budget 2014. They have been prepared by management as required by section 65.1 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* and in the form and manner prescribed by the Treasury Board of Canada Secretariat. Although these statements have not been subject to an external audit or review, the National Research Council Canada (NRC) attests that they are an accurate and true reflection of the financial position for the period ending September 30, 2014.

1.1 NRC Mandate

The National Research Council Canada (NRC) exists under the *National Research Council Act (R.S.C., 1985, c. N-15)* and is a Departmental corporation named in Schedule II of the *Financial Administration Act (R.S.C., 1985, c. F-11)*. The mission of the NRC is to work with clients and partners to provide innovation support, strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

Under the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC is responsible for:

- Undertaking, assisting or promoting scientific and industrial research in fields of importance to Canada;
- Providing vital scientific and technological services to the research and industrial communities;
- Investigating standards and methods of measurement;
- Working on the standardization and certification of scientific and technical apparatus and instruments and materials used or usable by Canadian industry;
- Operating and administering any astronomical observatories established or maintained by the Government of Canada;
- Establishing, operating and maintaining a national science library; and
- Publishing and selling or otherwise distributing such scientific and technical information as the NRC deems necessary.

Further details on the NRC's legislative framework, authority, mandate and program activities can be found in Part II of the Main Estimates and the Report on Plans and Priorities.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting. The accompanying Statement of Authorities includes the NRC's spending authorities granted by Parliament and those used by the NRC consistent with the Main Estimates and Supplementary Estimates (A) for 2014-15. This quarterly report has been prepared using a special purpose financial reporting framework designed to meet financial information needs with respect to the use for spending authorities.

The authority of Parliament is required before moneys can be spent by the Government of Canada. Approvals are given in the form of annually approved limits through appropriation acts or through legislation in the form of statutory spending authority for specific purposes (pursuant to paragraph 5(1)(e) of the *National Research Council Act (R.S.C., 1985, c. N-15)*, the NRC has authority to expend revenues it has received through the conduct of its operations).

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act (R.S.C., 1985, c. F-11)* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government of Canada to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The NRC uses the full accrual method of accounting to prepare and present its annual departmental financial statements which are part of the Departmental performance reporting process. However, the spending authorities voted by Parliament remain on an expenditure basis.

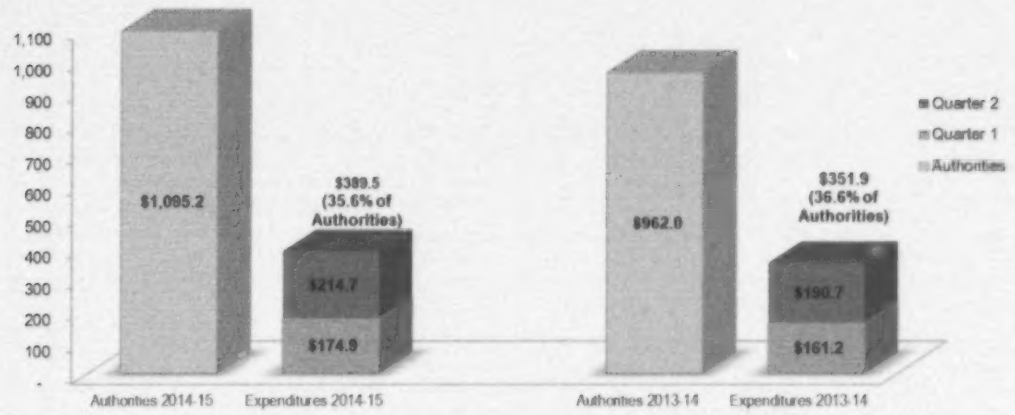
2. Highlights of Fiscal Quarter and Fiscal Year to Date (YTD) results

This section highlights the items that contributed most significantly to the changes in budgetary authorities for the current fiscal year and to the actual expenditures for the quarter that ended on September 30, 2014 compared with the previous fiscal year. This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object found on the last 2 pages of this report.

2.1 Authorities and Expenditures

The following graph provides a comparison of the budgetary authorities and expenditures as of September 30, 2014 and those as of September 30, 2013.

Comparison of Budgetary Authorities and Expenditures as of September 30, 2014 and September 30, 2013
(In millions of dollars)



As shown in the graph above, the NRC's expenditures totalled $214.7M during the second quarter of 2014–15 which represents an increase of $24M over the second quarter of 2013-14. Higher expenditures are attributable to the combined increase of $43.7M in net operating and statutory revenue expenditures, offset by a decrease of $ 3.7M in capital expenditures and $17M in contributions. Refer to 2.3 Significant Changes to Budgetary Expenditures for additional details.

2.2 Significant Changes to Authorities

For the period ending September 30, 2014, the authorities provided to the NRC include the Main Estimates, Supplementary Estimates (A) , the Statutory revenue authorities carried forward from 2013-14 as well as all authorities received from Treasury Board of Canada Secretariat Central Votes. The following table summarizes the changes to the NRC authorities since June 30, 2014:

For the year ending March 31, 2015 - As of September 30, 2014
Significant Changes to Authorities *(unaudited)*
(in millions of dollars)

	Vote 1 Operating	Vote 5 Capital	Vote 10 Grants & Contributions	Statutory Revenues	Contributions to EBP	Total
Authorities – Total available for use for the year ending March 31, 2015 - As of June 30, 2014						1,078.1
Add:						
Operating and Capital Budget Carry Forward	16.6	0.5				17.1
Total increase in authorities in comparison to prior quarter	**16.6**	**0.5**	**-**	**-**	**-**	**17.1**
Authorities – Total available for use for the year ending March 31, 2015 - As of September 30, 2014						1,095.2

2.3 Significant Changes to Budgetary Expenditures

This section should be read in conjunction with the NRC's tables entitled Statement of Authorities and Departmental budgetary expenditures by Standard Object both located at the end of this report.

2.3.1 Variances in Year-to-date Expenditures

As of September 30, 2014, year-to-date expenditures were $389.5M, representing an increase of $37.6M (11%) in comparison to the 2013-14 expenditures of the same period. The increase is mostly attributable to the following items:

- Combined net operating expenditures and statutory revenue expenditure increase of $57.6M compared with the same period of the previous fiscal year. This change is mainly attributable to an increase in personnel of $29.4M as well as an increase of $25.7M in other subsidies and payments. The increase in personnel cost is largely due to the ratification of several collective agreements in 2014-15, which has resulted in one-time prior-year retroactive payments of $16.9M, and one-time severance payments of $12.8M. The $25.7M increase in other subsidies is largely due to the $11.6M transition payment for implementing salary payments in arrears by the Government of Canada and a change in accounting practice for the recognition of work completed for Other Federal Government Departments;
- Transfer payments consisting of Grants & Contributions (G&C) expenditures decreased by $18.6M compared with the same period in the previous year. Of this amount, $14.5M is attributable to decreased contributions to firms, $7.3M in the Digital Technology Adoption Pilot Program due to the program's expiration, offset by an increase of $1.9M in the Youth Employment Strategy and $1.7M related to TRIUMF.

3. Risks and Uncertainties

3.1 NRC Corporate Risks

In July 2014, the NRC confirmed a cyber-intrusion on its IT infrastructure. This is a significant factor which overlays key corporate risks being managed, including those in the Q1 report: delivery of results to clients and Canada; ensuring longer term competitiveness and relevance to clients; and sourcing and management of technical and business expertise.

The NRC has put focused effort during Q2 on managing the response and associated disruption, as further outlined below under operations.

4. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 implemented in order to refocus the Government of Canada and its programs; make it easier for Canadians and business to deal with their government; and, modernize and reduce the back office.

The NRC realized savings of $1.3M identified for its first year of implementation in 2012-13. The NRC also fully achieved its ongoing Budget 2012 savings of $15.2M in fiscal year 2013-14 through administrative efficiencies within its internal operations by consolidating and streamlining activities as well as through program reductions. There are no variances in the NRC's authorities between fiscal year 2013-14 and 2014-15 due to full reductions to the NRC's permanent reference levels in the second year of implementation.

There are no significant financial risks or uncertainties related to the implementation of the NRC's Budget 2012 savings measures. The NRC developed a roll-out plan for each of its savings measures and progress against the plan is monitored by senior management on a quarterly basis.

Budget 2012 also included $67M in funding for fiscal year 2012-13 to support the NRC in refocusing on business-led, industry relevant research as well as $110M in continued funding to double financial support and expand services provided by NRC-IRAP to innovative small and medium-sized businesses that create high-value jobs. As part of this initiative, the NRC launched a concierge service that provides information and assistance to small and medium-sized businesses by helping them make effective use of federal innovation programs.

5. Significant changes in relation to operations, personnel and programs

Operations

The NRC collaborated with security partners in response to the cyber-intrusion in Q2, isolating its information holdings and redesigning internal protocols and security procedures to protect its information and the information of its clients and stakeholders. The NRC has taken interim measures to maintain business operations, adapting its processes to minimize the impact on clients and stakeholders. Addressing this situation remains the top priority for the NRC.

Programs

Several programs have been publicly announced in the second quarter of 2014-15:

- The NRC has officially launched a new Arctic Program to develop low-impact technologies to further economic and industrial development of Canada's vast northern regions. The program — recently announced by prime minister Stephen Harper during his annual Arctic sojourn — has four priority areas: resource development; northern transportation and shipping; marine safety technologies; and community infrastructure.

- The Government of Canada announced a new program to improve personal protective equipment and vehicle armour. The NRC and Defence Research and Development Canada (DRDC) are teaming up with industry partners to develop next-generation products that aim to reduce the weight of armour materials by at least 25 percent, without compromising on protection.
- The NRC announced a program aimed at finding economical and viable business based technological solutions to improve the safety and performance of marine vessels such as cargo ships and fuel tankers. The Marine Vehicles program will focus on technologies and processes for reducing operating costs of vessels, contributing to safe Arctic and offshore oil and gas operations.
- The NRC announced three research programs to improve health outcomes for Canadians affected by diseases such as cancer and Alzheimer's. These programs will contribute to accelerating the development of new therapeutics and vaccines in collaboration with Canadian and international partners.

Approved by:

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Date: November 28, 2014

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National Research Council Canada
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Date: November 28, 2014

National Research Council Canada

Quarterly Financial Report
For the quarter ended September 30, 2014

Statement of Authorities (unaudited)

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2015 *	Used during the quarter ended September 30, 2014	Year to date used at quarter-end
Vote 1 - Net Operating expenditures	391,173	110,940	230,032
Vote 5 - Capital expenditures	31,213	3,600	6,805
Vote 10 - Grants & contributions	274,891	46,881	88,496
Statutory revenue **	354,010	42,262	42,262
Statutory EBP	43,901	10,975	21,950
Total Budgetary authorities	1,095,188	214,668	389,545

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Total available for use for the year ending March 31, 2014 ***	Used during the quarter ended September 30, 2013****	Year to date used at quarter-end ****
Vote 60 - Net Operating expenditures	331,367	97,872	192,168
Vote 65 - Capital expenditures	30,776	7,264	10,016
Vote 70 - Grants & contributions	275,109	63,911	107,102
Statutory revenue **	284,539	11,615	22,515
Statutory EBP	40,238	10,060	20,119
Total Budgetary authorities	962,029	190,722	351,940

** Includes only Authorities available for use and granted by Parliament at quarter-end.*

*** Includes Statutory Revenue available for use in future years pursuant to paragraph 5(1)(e) of the National Research Council Act (R.S.C., 1985, c. N-15).*

**** Includes only Authorities available for use and granted by Parliament at quarter-end. Total available for use does not reflect measures announced in Budget 2013.*

***** Totals used during the quarter and used at quarter-end have been increased by $1,351 thousand and $3,217 thousand respectively. All authorities with the exception of Statutory EBP have been restated to reflect current year presentation basis.*

National Research Council Canada

For the quarter ended September 30, 2014

Departmental budgetary expenditures by Standard Object

(unaudited)

	Fiscal Year 2014-2015 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2015	Expended during the quarter ended September 30, 2014	Year to date used at quarter-end
Expenditures:			
Personnel	425,071	108,224	210,649
Transportation & communications	24,765	3,302	6,251
Information	3,445	273	548
Professional & special services	104,798	7,938	14,709
Rentals	6,645	1,180	3,384
Repair & maintenance	37,069	2,872	5,519
Utilities, materials & supplies	108,662	7,998	13,512
Acquisition of land, buildings & works	16,574	3,138	4,579
Acquisition of machinery & equipment	61,253	7,329	11,610
Transfer payments	274,691	46,691	86,496
Other subsidies & payments	30,215	7,573	21,840
Total net budgetary expenditures	**1,095,188**	**214,868**	**389,545**

	Fiscal Year 2013-2014 (in thousands of dollars)		
	Planned expenditures for the year ending March 31, 2014 *	Expended during the quarter ended September 30, 2013 **	Year to date used at quarter-end **
Expenditures:			
Personnel	388,196	94,858	184,577
Transportation & communications	33,282	2,704	5,179
Information	5,056	364	712
Professional & special services	61,296	6,662	12,033
Rentals	12,412	859	2,825
Repair & maintenance	32,939	3,750	6,964
Utilities, materials & supplies	124,402	10,793	15,134
Acquisition of land, buildings & works	-	2,438	4,121
Acquisition of machinery & equipment	9,928	8,937	12,801
Transfer payments	275,109	63,911	107,102
Other subsidies & payments	17,409	(4,653)	(3,897)
Total net budgetary expenditures	**962,029**	**196,722**	**351,948**

** Planned expenditures do not reflect measures announced in Budget 2013.*

*** Totals used during the quarter and used at quarter-end have been increased by $1,351 thousand and $3,217 thousand respectively. All expenditures by standard object have been restated to reflect current year presentation basis.*